



EAST KENTUCKY POWER COOPERATIVE

August 20, 2004

HAND DELIVERED

Ms. Elizabeth O'Donnell
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

RECEIVED

AUG 20 2004

PUBLIC SERVICE
COMMISSION

Re: PSC Case No. 2004-00212

Dear Ms. O'Donnell:

Please find enclosed for filing with the Commission in the above-referenced case an original and five copies of the responses of East Kentucky Power Cooperative, Inc., to the Commission Staff information requests in this case dated August 6, 2004.

Very truly yours,

A handwritten signature in cursive script that reads "Charles A. Lile".

Charles A. Lile
Senior Corporate Counsel

Enclosures

Cc: Michael L. Kurtz, Esq.

RECEIVED

AUG 20 2004

**PUBLIC SERVICE
COMMISSION**

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION OF THE APPLICATION OF)
THE FUEL ADJUSTMENT CLAUSE OF EAST)
KENTUCKY POWER COOPERATIVE, INC. FROM) CASE NO. 2004-00212
NOVEMBER 1, 2003 TO APRIL 30, 2004)

COMMISSION STAFF'S INTERROGATORIES AND REQUESTS
FOR PRODUCTION OF DOCUMENTS TO
EAST KENTUCKY POWER COOPERATIVE, INC.

Pursuant to Administrative Regulation 807 KAR 5:001, Commission Staff requests that East Kentucky Power Cooperative, Inc. ("East Kentucky") file the original and 5 copies of the following information with the Commission within 14 days of the date of this request, with a copy to all parties of record. Each copy of the information requested shall be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention shall be given to copied material to ensure its legibility. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

1. Refer to Item 6 of the response to the Commission's June 23, 2004 Order. Provide a narrative explanation, calculations, and workpapers of the derivation of the evaluated costs for East Kentucky (166.0 cents), Tennessee Valley Authority (157.1 cents), and Cincinnati Gas & Electric (162.0 cents).

2. In April 2004, total spot coal purchases were nearly double total contract coal purchases. In April 2003, total spot coal purchases were less than total contract coal purchases. Explain in detail whether East Kentucky is intentionally increasing its reliance upon spot purchases for its coal supply.

3. Refer to Item 12 of the response to the June 23, 2004 Order. Explain whether, under a performance bond, East Kentucky is assured of recovery of the entire amount of \$420,000.

4. Refer to Item 17 of the response to the June 23, 2004 Order.

a. Explain whether East Kentucky purchased the coal from Pevler that is the subject of the Board agenda item.

b. If purchased, explain whether any deliveries have been received.

c. If purchased, explain whether East Kentucky has reason to suspect any problems with delivery.

5. Refer to Item 18 of the response to the June 23, 2004 Order. The number of oral coal solicitations in this review period, as well as in the prior six-month review period, was significantly greater than in the November 1, 2002 through April 30, 2003 review period. Provide the reasons for the increase in oral solicitations and identify the advantages and disadvantages of oral solicitations as compared to written solicitations.



Beth O'Donnell
Executive Director
Public Service Commission
P. O. Box 615
Frankfort, KY 40602

DATED: August 6, 2004

cc: Parties of Record

EAST KENTUCKY POWER COOPERATIVE, INC.

**INDEX OF MATERIAL PROVIDED IN RESPONSE
TO PSC ORDER DATED AUGUST 6, 2004**

CASE NO. 2004-00212

<u>ITEM NO.</u>	<u>ITEM DESCRIPTION</u>	<u>WITNESS</u>
1.	Derivation of Evaluated Costs for Existing Long-Term Fuel Contracts (Item 6 of 6/23/04 Order)	Jerry Bordes
2.	April 2004 Compared to April 2003 Spot Coal vs. Contract Coal Purchases	Jerry Bordes
3.	Recovery Under Performance Bond With Coal Suppliers (Item 12 of 6/23/04 Order)	Jerry Bordes
4.	Further Explanation of Written Coal Supply Solicitations With Pevler (Item 17 of 6/23/04 Order)	Jerry Bordes
5.	Further Explanation of Oral Coal Supply Solicitations (Item 18 of 6/23/04)	Jerry Bordes

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC FUEL ADJUSTMENT CLAUSE CASE NO. 2004-00212

RESPONSE TO PSC ORDER DATED AUGUST 6, 2004

Question 1

Refer to Item 6 of the response to the Commission's June 23, 2004, Order. Provide a narrative explanation, calculations, and workpapers of the derivation of the evaluated costs for East Kentucky (166.0 cents), Tennessee Valley Authority (157.1 cents), and Cincinnati Gas & Electric (162.0 cents).

Answer 1

East Kentucky calculates its comparison with other utilities by adding together the delivered price per ton, a calculated ash disposal cost, and an adjustment for sulfur cost based on the current sulfur dioxide market. The total dollars per ton is divided by the average MMBtu per ton to arrive at an evaluated cost for each utility. The delivered price per ton is taken from FERC data. The calculated ash disposal is arrived at by multiplying each utility's ash content by an average \$.21/ton per one percent ash content multiplied by 11,500 Btu/lb. divided by the utility's average Btu content. The adjustment for sulfur is calculated by using the applicable month's market price for SO₂ and converting it to dollars per ton per one percent sulfur by multiplying the SO₂ cost by two and dividing the sum by 1,000. This SO₂ dollars per ton per one percent sulfur is multiplied by the utility's sulfur content. The work paper showing this calculation for the applicable month is attached.

December 2003

\$/ton/SO2 \$/ton/%
 183 3.66
 Sulfur \$/ton/% \$/ton/%
 0.21 0.21
 Ash

Receipts, Cost, And Quality of Coal By Utility - December 2003

Ranking by Evaluated Cost per MMBtu

Utility	Quantity (1000)	Delivered Cost		Average Sulfur %	Average Ash %	Average Btu per Pound	Sulfur Eval. Cost	Ash Eval. Cost	Evaluated Cost	
		Cents Per MMBtu	Dollars Per Ton						Dollars Per Ton	Cents Per MMBtu
CG&E	1075	116.2	28.10	2.48	10.00	12095	9.08	2.00	39.18	162.0
East KY Power	220	140.7	34.11	1.08	11.00	12125	3.95	2.19	40.25	166.0
KY Power	196	118.2	28.76	1.00	9.00	12172	3.66	1.79	34.21	140.5
KY Utilities	778	151.5	35.89	1.34	10.00	11847	4.90	2.04	42.83	180.8
LG&E	571	114.9	25.83	3.18	12.00	11242	11.64	2.58	40.05	178.1
TVA	3559	120.6	26.76	1.62	10.00	11099	5.93	2.18	34.87	157.1

Note: Sulfur Evaluation based on \$183 /ton So2 Credit cost or \$3.66 per ton per percent.
 Ash Evaluation based on \$0.21 per ton per percent ash at 11,500 Btu/lb.

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC FUEL ADJUSTMENT CLAUSE CASE NO. 2004-00212

RESPONSE TO PSC ORDER DATED AUGUST 6, 2004

Question 2

In April 2004, total spot coal purchases were nearly double total contract coal purchases. In April 2003, total spot coal purchases were less than total contract coal purchases. Explain in detail whether East Kentucky is intentionally increasing its reliance upon spot purchases for its coal supply.

Answer 2

East Kentucky is not intentionally increasing its reliance upon spot purchases for its coal supply. East Kentucky had approximately 100,000 tons per month of its contract supplies to various stations cancelled through the bankruptcy court from Horizon Natural Resources. These contracts were cancelled from September 2003 through the most recent in February 2004. East Kentucky does not have all of the contract tonnage replaced as of yet. East Kentucky is currently in negotiation with a short list of suppliers that responded to solicitations made in May and June 2004 for East Kentucky's Cooper and Spurlock Unit No. 1 Power Stations. The contract percentage for April 2004 for Dale Power Station was 73 percent, Cooper Power Station—26 percent, Spurlock Power Station Unit No. 1—26 percent, and Spurlock Power Station Unit No. 2—50 percent. If the Cooper and Spurlock Unit No. 1 Power Stations' Horizon contracts would not have been terminated, the contract percentage at Cooper Power Station would have been 77 percent and Spurlock Power Station Unit No. 1 at 81 percent.

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC FUEL ADJUSTMENT CLAUSE CASE NO. 2004-00212

RESPONSE TO PSC ORDER DATED AUGUST 6, 2004

Question 3

Refer to Item 12 of the response to the June 23, 2004, Order. Explain whether, under a performance bond, East Kentucky is assured of recovery of the entire amount of \$420,000.

Answer 3

East Kentucky is not assured recovery of the entire \$420,000 performance bond. The bonding company has raised objections to East Kentucky's claim. East Kentucky's legal counsel is currently involved in efforts to address the bonding company's objections and to have them honor the performance bond. East Kentucky feels that it will prevail in recovering the entire amount either in or out of court.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC FUEL ADJUSTMENT CLAUSE CASE NO. 2004-00212
RESPONSE TO PSC ORDER DATED AUGUST 6, 2004

Question 4

Refer to Item 17 of the response to the June 23, 2004, Order.

- a. Explain whether East Kentucky purchased the coal from Pevler that is the subject of the Board agenda item.
- b. If purchased, explain whether any deliveries have been received.
- c. If purchased, explain whether East Kentucky has reason to suspect any problems with delivery.

Answer 4

- a. East Kentucky purchased the subject coal from Pevler through the referenced Board agenda item.
- b. Deliveries began in April 2004 to Spurlock Power Station in accordance with the signed agreement.
- c. East Kentucky has received scheduled monthly deliveries to date and does not have any current reasons to suspect that future problems will occur.

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC FUEL ADJUSTMENT CLAUSE CASE NO. 2004-00212

RESPONSE TO PSC ORDER DATED AUGUST 6, 2004

Question 5

Refer to Item 18 of the response to the June 23, 2004, Order. The number of oral coal solicitations in this review period, as well as in the prior six-month review period, was significantly greater than in the November 1, 2002, through April 30, 2003, review period. Provide the reasons for the increase in oral solicitations and identify the advantages and disadvantages of oral solicitations as compared to written solicitations.

Answer 5

In reference to Item 18, East Kentucky's number of oral coal solicitations has increased due to the rapidly increasing coal market prices and the need to obtain quick responses to lock in lower prices. Also, East Kentucky has needed to replace quantities of coal that have not been delivered on time from various suppliers.

The advantages of oral solicitations are that the solicitations can be completed and acted upon in a matter of days to take advantage of prices that may not be available at a future point in time. Also, market prices can be obtained without disclosing that the BUYER is in need of coal. Disadvantages to oral solicitations are the possibility of missing a supply of coal if not thoroughly conducted.